

ISAS Brief

No. 490 – 7 June 2017

Institute of South Asian Studies
National University of Singapore
29 Heng Mui Keng Terrace
#08-06 (Block B)
Singapore 119620
Tel: (65) 6516 4239 Fax: (65) 6776 7505
www.isas.nus.edu.sg
<http://southasiandiaspora.org>



Prime Minister Narendra Modi's Russia Visit: Re-bolstering Economic Relations

India's Prime Minister Narendra Modi returned to India on 4 June 2017 following a six-day four-nation tour of Germany, Spain, Russia and France. Of the four stops in Europe, the visit to Russia perhaps holds the greatest significance personally for him. Since coming to power, Modi had apparently developed a great relationship with Russia's President Vladimir Putin. However, from India's perspective, the relationship went off course in recent times, especially due to Moscow's close relationship with Pakistan. The visit was, therefore, an opportunity for the pair to explore ways to re-bolster economic ties between the once significant bilateral partners.

Girija Pande¹

Introduction

India's Prime Minister Narendra Modi visited Russia on 1 and 2 June 2017, as part of his six-day European tour. The visit to Russia was the third leg of a four-nation tour which also included Germany, Spain and France. During the visit to Russia, Modi and Russia's President Vladimir Putin held the 18th India-Russia annual Summit on 1 June 2017. The two leaders

¹ Mr Girija Pande is a Member of the Management Board of the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore. He can be contacted at girija.pande@apex-avalon.sg. The author bears full responsibility for the facts cited and opinions expressed in this paper.

unveiled a progressive and long-term vision document to outline the agenda for Indo-Russian economic cooperation. The two leaders also signed five key agreements.² At the same time, the Indian prime minister addressed the plenary session of the Saint Petersburg International Economic Forum. India participated in this ‘Russian Davos’ as a partner country for the first time with the intention of attracting investments to its shores.

Modi’s visit to Russia was important for several reasons. When he became prime minister, he developed close personal and political relations with Putin. There were prospects of a great relationship between the two countries. However, the relationship seems to have gone cold in recent times. Russia’s military engagements with Pakistan and growing ties with the Taliban have not gone down well in New Delhi. At the same time, the China factor and the allure of the Belt and Road Initiative, as China’s grand development strategy on connectivity and cooperation among Eurasian countries, have become a distraction in their relationship. The visit was, therefore, an opportunity to re-ignite some of the lost spark in the relationship between the two nations.

Historical and Political Contexts

The Indian government has, historically, had close and cordial relations with the Russians. The impact of Indo-Russian relations on India’s domestic and foreign policies since the 1960s has been substantial. The then-Soviet Union was instrumental in helping independent India industrialise, develop its scientific and technical potential, along with providing it with major arms. The Indo-Soviet relationship acquired a high level of trust that was probably unprecedented in their international affairs. Despite a changing global environment and the challenges of shifting alliances in the post-Soviet era, the relationship between India and Russia has, by and large, remained reasonably resilient. To New Delhi, relations with Russia are “a key pillar of India’s foreign policy”, with Russia being “a longstanding time-tested partner”.³

² These included the agreement to set up two more units of a nuclear power plant in Tamil Nadu. The two sides also decided to hold the first tri-services exercises, named ‘Indra-2017’ this year and start joint manufacturing of frigates, adding on to the co-production of Kamov-226 military helicopters. See <http://www.dnaindia.com/india/report-five-agreements-signed-by-russia-and-india-during-pm-modi-s-visit-to-st-petersburg-2458819>. Accessed on 5 June 2017.

³ See <http://indianembassy.ru/index.php/bilateral-relations/bilateral-relations-india-russia>. Accessed on 5 June 2017.

The collapse of the Soviet Union negatively affected the relations between the two countries, though the political leaderships in both countries succeeded in containing the impact of the fall of the Soviet bloc. Today, it is critical that the two countries find new ways to re-energise their comprehensive ties in a rapidly changing international system with unclear alignments. Both sides desire a polycentric world as opposed to a bipolar one. Politically, Russia's view of resolving the Afghanistan problem and its recent closeness to China create concerns for India.

Both India and Russia are also diversifying their political alignments and defence deals, with Russia moving towards China and Pakistan, and India leaning towards the United States (US). However, the election of Donald Trump as US President has created some degree of uncertainty in India's ties with Washington. As a result, India will need to enhance its multifaceted ties with Russia, which is also necessary, if it wants Moscow to reduce its dependence on China, although all three countries do consult regularly at senior levels in such forums as the association of five major emerging national economies – Brazil, Russia, India, China and South Africa – and the Group of Twenty forum of established and emerging economies. India, as an Observer at the Shanghai Cooperation Organization so far, has had links with Russia and China in this forum as well.

Upgrading Commercial Ties

India and Russia need to prioritise their economic ties which have been going downhill for some time now, even as India looks to expand its commercial and military ties with the US, the European Union and Japan. The two sides have set a target of bilateral trade reaching US\$30 billion (S\$41.4 billion) and mutual investment at US\$15 billion (S\$20.7 billion) by 2025. This is extremely ambitious, given that their two-way trade stood at a mere US\$7.8 billion (S\$10.9 billion) in 2015.⁴

The Indian private sector has been hesitant about making large-scale investments in Russia and commercial ties have been largely between the two governments, with investments primarily confined to arms and energy. Western sanctions on Russia in the recent past have not helped. Beyond the government-to-government plans for investments and trade, it is important to involve the Indian corporate sector in economic ties with Russia. One way of doing this is to

⁴ See <http://www.russia-briefing.com/news/russia-india-boost-economic-cooperation-trade.html/>. Accessed on 5 June 2017.

use known third parties to bring the Indian private sector into Russia. The Rosneft-Trafigura deal to acquire Essar Oil is one good example of such mega deals involving private capital.⁵ There is potential for more.

Military Partnership

Military supplies form the bulk of the government-to-government trade between the two countries. Russian equipment made up around 75 per cent of all of New Delhi's weapons imports from 2004 to 2014. From 2009 to 2013, India and Russia signed defense deals worth an estimated US\$30 billion (S\$41.4 billion).⁶ However, India's dependence on Russian military equipment has declined as India has diversified its arms imports from US and Israel. The US has apparently become India's largest arms supplier – the two sides have been brought closer by their common desire to contain China, and as a result of India's stronger purchasing power and its consequent preference for more high-technology and expensive military hardware.⁷

It is reported that India will spend US\$250 billion (S\$345 billion) over the next decade to upgrade its military.⁸ This provides the potential for Russia to, once again, become a key arms supplier to India – an opportunity it would not want to miss. For the Indians, closer Indo-Russian military ties will help to contain the growing engagement between Russia and Pakistan.

Apart from the sale of military equipment, India could do with Russia's assistance to build nuclear power plants on its soil. They could also collaborate in oil/gas production in Russian Arctic. The possibilities of creating the International North South Transport Corridor via Iran and Central Asia to assist in the transportation of goods are being explored via Russia to East and Central Europe.

⁵ In 2016, Rosneft PJSC, Russia's biggest listed oil producer, and a consortium of Trafigura and United Capital Partners, decided to buy India's Ruia brothers' share of 98 percent stake in their refinery unit for about US\$13 billion (S\$17.9 billion). See <https://www.bloomberg.com/news/articles/2016-10-15/rosneft-trafigura-to-buy-98-stake-in-essar-oil-for-13-billion>. Accessed on 5 June 2017.

⁶ See <http://thediplomat.com/2016/03/russia-remains-indias-largest-arms-supplier-for-now/>. Accessed on 6 June 2017.

⁷ See <http://economictimes.indiatimes.com/news/defence/where-does-indias-strategic-defence-relationship-with-russia-stand-in-a-world-of-two-superpowers/articleshow/50407554.cms>. Accessed on 5 June 2017.

⁸ See <http://thediplomat.com/2016/01/new-momentum-for-india-russia-relations/>. Accessed on 6 June 2017.

Other Potential Sectors

Beyond the traditional military, oil and gas sectors, new areas of possible collaboration between India and Russia have emerged.

The Russian pharmaceutical sector is projected to reach a value of US\$31.2 billion (S\$43 billion) in 2019.⁹ Coupled with the Russian government's Pharma 2020 plan, which aims to increase domestic pharmaceutical manufacturing, and research and development capabilities significantly, the sector offers opportunities for India's pharmaceutical companies. With its low cost, high-quality production, the Indian pharmaceutical industry is an attractive proposition to Russia, which has to worry about surging healthcare needs.

The restriction by the Trump government on H-1B visa holders from India and possible curtailing of outsourcing have resulted in Indian companies looking for alternative destinations to do business. In this respect, Russia offers a significant market, in view of its businesses having strong hardware capabilities.¹⁰

Other areas of potential collaboration include agriculture and food processing, dairy products, seafood, diamond mining and processing, metallurgy, automobiles and cybersecurity, and cooperation in the energy sector.

Going forward, these areas could be the new focus involving private sectors from both countries – this may just give the bilateral relationship the fillip that it needs.

Conclusion

India-Russia relations have gone through strains and stress in the last few years in the wake of shifting global priorities. Russia's focus on China and Pakistan, and India's shift towards the US seemed to have distanced the two partners. The visit by Modi to Russia appeared to provide some scope for a revitalisation of the relationship. However, it is still early to assess the real impact of the visit. After all, there have been visits by both sides in the past that have yielded little. Only time will tell if the current efforts by both sides will bear fruit or turn out to be nothing more than mere rhetoric.

.

⁹ See <http://www.pharmabiz.com/PrintArticle.aspx?aid=88490&sid=21>. Accessed on 6 June 2017.

¹⁰ <http://www.millenniumpost.in/opinion/opinion-241452>. Accessed on 6 June 2017.